

**DW 06-073**

**PENNICHUCK WATER WORKS, INC.**

**Petition for Permanent and Temporary Rate Increase  
Order Suspending Proposed Tariffs  
and  
Scheduling Prehearing Conference**

**O R D E R N O. 24,646**

**July 13, 2006**

Pennichuck Water Works, Inc. (Pennichuck) provides water service through its core system to approximately 24,000 customers in the City of Nashua and the towns of Amherst, Bedford, Hollis, Merrimack, and Milford. Pennichuck also serves customers in the towns of Derry, Epping, Plaistow, Newmarket and Salem.

On May 12, 2006, Pennichuck filed a notice of intent to increase rates with the New Hampshire Public Utilities Commission (Commission). On June 16, 2006, Pennichuck filed schedules and materials, pursuant to N.H. Code Admin. R. Chapter Puc 1600, supporting its proposed rate increase and requested waiver of N.H. Admin. Rule Puc 1604.01(a)(1) pertaining to Pennichuck's internal financial reports. In support of this request, Pennichuck states that it previously provided this information to the Commission and that compliance would be burdensome and duplicative. Staff concurred with the waiver request. Pennichuck also included a petition for a temporary rate increase as part of its June 16 filing.

In its filing, Pennichuck seeks a total increase of 36.49 percent over its annual operating revenues for the test year ending December 31, 2005. This total is comprised of a proposed initial permanent increase of 15.91 percent, which will generate \$2,656,061 over its test year operating revenues, as well as an additional permanent increase of 20.58 percent through a step

adjustment. Pennichuck anticipates generating \$3,435,572 in additional operating revenues from the step adjustment.

Based on Pennichuck's 2000 Cost of Service Study, Pennichuck proposes no increase to the private and municipal fire protection charges. Pennichuck has applied the 36.49 percent increase only to its general metered customers and therefore the 36.49 percent increase would result in an effective increase of 43.11% for general metered customers. Pennichuck states this increase will result in an average annual residential water bill for a single family home of approximately \$477.72 based on average usage of 9.42 hundred cubic feet of water per month. This would represent an increase of \$11.99 per month for residential customers. Pennichuck proposed the increase to take effect on June 16, 2006.

Pennichuck's petition for temporary rates requests an increase in revenues of \$2,529,083 or 15.15 percent on an annual basis, to take effect for bills rendered on or after August 1, 2006. Pennichuck requests waiver of Puc 1203.05, which requires rate changes be implemented on a service rendered basis. This temporary rate increase would raise all non-fire protection customers' rates by 17.90 percent.

According to Pennichuck, the proposed increases are necessary because it is not earning a return that is adequate to cover its cost of capital or a reasonable return on the actual cost of its property used and useful in the public service. Pennichuck states its overall rate of return during the test year ending December 31, 2005 was 6.80 percent, or 178 basis points below Pennichuck's last allowed return of 8.58 percent. Pennichuck attributes the lower return to (a) the investments it has made regarding Safe Drinking Water Act compliance, (b) significant

capital expenditures required to upgrade its water treatment plant, (c) pipeline replacement projects, (d) relocation mandated by the City of Nashua's combined sewer overflow project, (e) capital improvements necessitated by the aging infrastructure of the Company's system, and (f) the increasing operating cost from items such as insurance, chemicals, energy, purchased water, labor and property taxes.

The filing raises, inter alia, issues related to: whether the proposed temporary and permanent rates are lawful, just and reasonable as required by RSA 378; whether test year expenses and *pro forma* adjustments are reasonable; whether the calculation of rate base represents prudent investment in property that is used and useful; the determination of a reasonable rate of return, including an appropriate capital structure; whether the level of revenues used for calculating the revenue requirement is reasonable; whether the proposed rate design is fair and reasonable; the propriety of the proposed effective date given the requirement in Puc 1203.05 of 30 days notice to customers; and the propriety of the proposed waiver of the requirement to implement rate changes on a service rendered basis.

With regard to Pennichuck's rule waiver request made as part of its June 16 filing, we find it to be reasonable, as Staff and the parties will have an opportunity to explore those matters in the discovery phase. We will, therefore, grant the requested waiver of N.H. Admin. Rule Puc 1604.01(a)(1).

**Based on the foregoing, it is hereby**

**ORDERED**, that Pennichuck Water Works Inc.'s NHPUC NO. 5 WATER – Seventh Revised Pages 39 and 40 be and hereby are suspended, and it is

**FURTHER ORDERED**, that the requested waiver of N.H. Admin. Rule Puc

1604.01(a)(1) is granted, and it is

**FURTHER ORDERED**, that a Prehearing Conference, pursuant to N.H. Admin. Rules Puc 203.15, be held before the New Hampshire Public Utilities Commission located at 21 South Fruit Street, Concord, New Hampshire on August 1, 2006 at 10:00 at which each party and Commission Staff will provide a preliminary summary of its positions with regard to the Petition; and it is

**FURTHER ORDERED**, that, immediately following the Prehearing Conference, Pennichuck, Commission Staff and Intervenors hold a technical session to review the issues and recommend a proposed procedural schedule for consideration of temporary and permanent rates; and it is

**FURTHER ORDERED**, that pursuant to N.H. Code Admin. Rules Puc 203.12, Pennichuck notify all persons desiring to be heard at this hearing by publishing a copy of this Order of Notice no later than July 18, 2006, in The Nashua Telegraph and in a statewide newspaper of general circulation, publication to be documented by affidavit filed with the Commission on or before August 1, 2006; and it is

**FURTHER ORDERED**, that in addition to the legal notice required above for the Prehearing Conference, Pennichuck Water Works, Inc. shall publish by July 21, 2006 a display advertisement pertaining to the Prehearing Conference, details of which shall be determined in consultation between Pennichuck Water Works, Inc. and the Executive Director and Secretary; and it is

**FURTHER ORDERED**, that pursuant to N.H. Admin. Rules Puc 203.12, any party seeking to intervene in the proceeding shall submit to the Commission seven copies of a Petition

to Intervene with copies sent to Pennichuck Water Works, Inc. and the Office of the Consumer Advocate on or before July 27, 2006, such Petition stating the facts demonstrating how its rights, duties, privileges, immunities or other substantial interests may be affected by the proceeding, as required by N.H. Admin. Rule Puc 203.17 and RSA 541-A:32, I(b); and it is

**FURTHER ORDERED**, that any party objecting to a Petition to Intervene make said Objection on or before August 1, 2006; and it is

**FURTHER ORDERED**, that, pursuant to N.H. Code Admin. Rules Puc 203.12 (a)(5), each party has the right to have an attorney represent them at their own expense.

By order of the Public Utilities Commission of New Hampshire this thirteenth day of July, 2006.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Clifton C. Below  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director and Secretary

Any individuals needing assistance or auxiliary communication aids due to sensory impairment or other disability, should contact the American with Disabilities Act Coordinator, NHPUC, 8 Old Suncook Road, Concord, New Hampshire 03301-7319; 603-271-2431; TDD Access: Relay N.H. 1-800-735-2964. Preferably, notification of the need for assistance should be made one week before the scheduled event.